



Charlevoix-Emmet Intermediate School District

**Financial Statements
and
Supplementary Information**

**For the Fiscal Year Ended
June 30, 2006**



REHMANN ROBSON

Certified Public Accountants

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

July 27, 2006

Board of Education
Charlevoix-Emmet Intermediate School District
Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Charlevoix-Emmet Intermediate School District*** (the "District"), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2006, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The financial statement and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Management's Discussion and Analysis

The Management Discussion and Analysis, a requirement of GASB 34, is intended to be the Charlevoix-Emmet Intermediate School District ("the District") management's overview of the financial results for the year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

The overall condition of all funds remains very strong for the District. All goals related to financial activities have been met in the past year. If current revenue and expenditure patterns can be maintained, the resources for the following year will be available to meet the District's financial needs.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$11.65 million (net assets).

The District's total net assets decreased by \$289,787 this year. This decrease in net assets is primarily caused by the increased staff throughout the school year. As the needs of the local districts increased, the District hired additional staff to meet the needs of the children and finance assistants to meet the demands of declining budgets at the schools. With the increase in District staff, the District incurred an overall decrease in net assets. The District chooses to use its financial position to aid the local districts that it serves by increasing services to the children and staff of the local districts.

The District also purchased four new buses to replace outdated buses in the fleet. This was part of a rotation schedule for bus replacement for the District.

At the end of the current fiscal year, the aggregated fund balance for the District's operational funds (General Fund, Special Education Fund, and Vocational Education Fund) was \$7,532,516.

USING THIS ANNUAL REPORT

GASB 34 requires the District's financial statements be comprised of three components: government-wide financial statements, fund financial statements, and the notes to the financial statements.

The statements are organized so the reader can understand the District as a whole (government-wide statements), and then to provide an increasingly detailed look at specific financial statements (fund financial statements). Also included are various notes to the financial statements. The audit also contains supplemental information in addition to the basic financial statements themselves.

Reporting the District as a Whole

Government-wide financial statements

One of the most important questions asked regarding the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities to help address this question. These statements include all assets and liabilities of the District accounted for using the accrual basis of accounting similar to that used by the private sector

corporations. All of the current year's revenues and expenditures are taken into consideration regardless of when cash is received or paid.

The two statements report the District's net assets and any changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as the property tax base, political conditions at the State level, student enrollment growth, quality of local service, and facility improvements prior to arriving at any conclusion regarding the overall health of the District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The two types of funds: governmental funds and fiduciary funds use different accounting methods as further discussed in the notes to the financial statements.

Governmental Funds

Most of the District's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accrual basis of accounting is used to account for fiduciary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table I provides a summary of the District's net assets as of June 30, 2006 and 2005:

	<u>Governmental Activities</u> (in millions)		
	<u>2006</u>	<u>2005</u>	
Assets			
Current assets	\$ 10.09	\$ 10.49	
Noncurrent assets	<u>3.74</u>	<u>3.65</u>	
Total assets	<u>13.83</u>	<u>14.14</u>	

Governmental Activities (continued)
(in millions)

	<u>2006</u>	<u>2005</u>
Liabilities		
Current liabilities	1.67	1.39
Noncurrent liabilities	<u>0.51</u>	<u>0.81</u>
Total liabilities	<u>2.18</u>	<u>2.20</u>
Net assets		
Invested in capital assets, net of related debt	\$ 2.96	\$ 2.80
Restricted	6.37	6.59
Unrestricted	<u>2.32</u>	<u>2.55</u>
Total net assets	<u>\$ 11.65</u>	<u>\$ 11.94</u>

The District currently reports positive balances in each category of net assets. With the exception of the State Obligated “Durant Bonds,” the District remains free of long-term debt.

The results of fiscal 2006 and 2005 operations for the District as a whole are presented in the statement of activities, which shows the changes in net assets for fiscal years 2006 and 2005.

Governmental Activities
(in millions)

	<u>2006</u>	<u>2005</u>
Revenue		
Program revenue		
Charges for services	\$ 1.49	\$ 1.38
Operating grants and contributions	7.50	7.53
General revenue		
Property taxes	12.13	11.49
State school aid	0.63	0.65
Other	<u>0.22</u>	<u>0.13</u>
Total revenue	<u>21.97</u>	<u>21.18</u>
Functions/Program Expenses		
Instruction	3.48	3.44
Supporting services	13.15	12.47
Food service	0.02	0.02
Transfers to other local units and other services	<u>5.60</u>	<u>5.80</u>
Total expenses	<u>22.25</u>	<u>21.73</u>
(Decrease) increase in net assets	<u>\$ (.28)</u>	<u>\$ (.55)</u>

As reported in the Statement of Activities, the cost of all *governmental activities* this year was \$22.25 million. While \$12.13 million in revenue was generated directly from local taxpayers, another \$1.49 million was generated through “charges for actual services” by local districts, other ISDs, or individuals that benefited directly from our services. State, federal, and other regional grants and programs brought \$7.50 million to the District. The District received over \$.85 million in state school aid and other sources, inclusive of investment earnings.

Net Assets for the year ended June 30, 2006 decreased by \$.28 million. The decrease was a result of increased staff cost incurred by the District. While the District increased its staff, it resulted in increased services to the local districts.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared in accordance with Michigan Law. The most significant budgeted funds are the General Fund, Special Education Fund, and the Vocational Education Fund.

During fiscal 2006, the District amended the budgets of these major governmental funds twice. This has been the normal business practice of the District.

Due to the nature of grant awards throughout the year, the General Fund budget changed significantly from the beginning to the end of the year.

General Fund

The General Fund expenditures exceeded revenues in fiscal 2006 by \$26,725. The General Fund's expenditures exceeded its revenues primarily due to the increase of three finance assistants to meet the needs of declining budgets at the local districts. Another factor is the increased training costs incurred at the District for local district staff. Professional development provided to the local school district staff is some of the only training local staff receives because of low cost and convenience. Budgeted amounts for both revenues and expenditures were within 2%, respectively of the actual audited amounts.

Special Education

The Special Education Fund had revenues exceed expenditures in fiscal 2006 by \$74,302.

Vocational Education

Vocational Education expenditures exceeded revenues in fiscal 2006 by \$419,798. These funds were distributed per the District's Vocational Education program plan, as approved by the District's voters. The decrease in Vocational Education is a result of an additional \$300,000 distributed to local districts to fund vocational programs at the districts. There were also increased training costs associated with the new District-wide student and reporting system. The total cost of training was picked up by the District for all local district staff.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The District's investment in capital assets as of June 30, 2006 amounted to \$3,744,037. These assets have accumulated \$1,300,538 of depreciation. Our capitalized assets include our buildings, land, and transportation fleet. During this fiscal year net capital assets increased by \$91,909. A categorized listing of the assets is highlighted below:

Capital Assets, Net		<u>2006</u>	<u>2005</u>
Land		\$ 477,145	\$ 477,145
Land improvements		399,674	421,287
Buildings		1,840,349	1,883,330
Building improvements		170,801	117,578
Vehicles		746,320	627,959
Equipment		109,748	124,829
Total net assets		<u>\$3,744,037</u>	<u>\$3,652,128</u>

Further information regarding capital assets can be found in the notes to the financial statements.

Long-term debt

The District currently holds \$784,281 of the Durant Resolution School Improvement Bonds. The bonds are a legal obligation of the District, but the only repayment source is a State of Michigan appropriation equal to the annual payment of the bonds and interest. If the legislature fails to make such an appropriation, the District is under no obligation for payment.

Further information regarding long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of the State of Michigan has dramatically slowed and forecasts project shortages in both the State's General Fund and the State School Aid Fund for the upcoming year. The exact implications to the District are unknown. Our fiscal 2007 budgets were prepared with these factors in mind.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Lisa M. Krosnicki
Business Manager
Charlevoix-Emmet Intermediate School District
08568 Mercer Blvd.
Charlevoix, MI 49720

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES

JUNE 30, 2006

ASSETS	
Current assets	
Cash and cash equivalents	\$ 7,576,363
Taxes receivable	-
Due from other governmental units	2,476,591
Other assets	30,997
Inventories	2,658
Total current assets	10,086,609
Noncurrent assets	
Capital assets not being depreciated	477,145
Capital assets being depreciated	3,266,892
Total noncurrent assets	3,744,037
Total assets	13,830,646
LIABILITIES	
Current liabilities	
Accounts payable	50,530
Accrued liabilities	1,073,161
Accrued interest payable	110,240
Due to other governmental units	62,000
Unearned revenue	71,699
Bonds payable due in one year	307,223
Total current liabilities	1,674,853
Noncurrent liabilities	
Accrued compensated absences	28,641
Bonds payable in more than one year	477,058
Total noncurrent liabilities	505,699
Total liabilities	2,180,552
Net assets	
Invested in capital assets, net of related debt	2,959,756
Restricted for	
Special education	5,274,025
Vocational education	964,537
Capital project	135,979
Unrestricted	2,315,797
Total net assets	\$ 11,650,094

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 3,474,502	\$ 455,553	\$ 2,379,449	\$ (639,500)
Supporting services	13,149,857	1,036,011	5,041,748	(7,072,098)
Food service	18,858	1,556	6,156	(11,146)
Transfers to other local units and other services	5,596,883	-	69,382	(5,527,501)
Interest on long-term debt	28,599	-	-	(28,599)
Total governmental activities	\$ 22,268,699	\$ 1,493,120	\$ 7,496,735	(13,278,844)
General revenue				
Property taxes				12,132,869
State school aid				634,311
Unrestricted investment earnings				221,877
Total general revenue				12,989,057
Change in net assets				(289,787)
Net assets, beginning of year				11,939,881
Net assets, end of year				\$ 11,650,094

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2006

	General Fund	Special Education Fund	Vocational Education Fund
Assets			
Cash and cash equivalents	\$ 886,342	\$ 5,615,090	\$ 937,656
Taxes receivable	-	-	-
Due from other funds	397	-	-
Due from other governmental units	737,599	502,859	74,991
Other assets	-	30,997	-
Inventories	2,434	224	-
Total assets	\$ 1,626,772	\$ 6,149,170	\$ 1,012,647
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 38,423	\$ 8,897	\$ 1,496
Accrued liabilities	160,696	865,851	46,614
Due to other governmental units	62,000	-	-
Due to other funds	-	397	-
Deferred revenue	71,699	-	-
Total liabilities	332,818	875,145	48,110
Fund balances			
Reserved			
Inventories	2,434	224	-
Insurance pool	110,491	-	-
Unreserved			
Designated for Vocational program development	-	-	548,750
Designated for transportation consortium	160,518	-	-
Designated for employee conferences	22,458	98,520	3,553
Designated for employee severance	100,000	360,000	-
Designated for transportation	-	200,000	-
Designated for building improvements	-	1,200,000	-
Designated for technology replacement	300,000	480,000	-
Designated for regional equipment	-	-	48,857
Designated for special projects	-	-	97,714
Designated for connectivity	-	-	209,903
Designated for capital outlay	200,000	650,000	-
Undesignated	398,053	2,285,281	55,760
Total fund balances	1,293,954	5,274,025	964,537
Total liabilities and fund balances	\$ 1,626,772	\$ 6,149,170	\$ 1,012,647

The accompanying notes are an integral part of these financial statements

Debt Service Fund	Capital Project Fund	Non Major	Total Governmental Funds
		School Lunch Fund	
\$ -	\$ 135,979	\$ 1,296	\$ 7,576,363
-	-	-	-
-	-	-	397
784,281	265,649	972	2,366,351
-	-	-	30,997
-	-	-	2,658
\$ 784,281	\$ 401,628	\$ 2,268	\$ 9,976,766
\$ -	\$ -	\$ 1,714	\$ 50,530
-	-	-	1,073,161
-	-	-	62,000
-	-	-	397
784,281	265,649	-	1,121,629
784,281	265,649	1,714	2,307,717
-	-	-	2,658
-	-	-	110,491
-	-	-	548,750
-	-	-	160,518
-	-	-	124,531
-	-	-	460,000
-	-	-	200,000
-	-	-	1,200,000
-	-	-	780,000
-	-	-	48,857
-	-	-	97,714
-	-	-	209,903
-	-	-	850,000
-	135,979	554	2,875,627
-	135,979	554	7,669,049
\$ 784,281	\$ 401,628	\$ 2,268	\$ 9,976,766

Continued ...

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

BALANCE SHEET

JUNE 30, 2006

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

Fund balances - total governmental funds	\$ 7,669,049
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Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	5,044,574
Deduct - accumulated depreciation	(1,300,538)

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds

Add - deferred Durant settlement receivable and Durant bonds receivable	1,049,930
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Receivables in the statement of net assets that do not provide current financial resources are not reported as receivables in the funds

Add - accrued interest on Durant bonds	110,240
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(784,281)
Deduct - accrued compensated absences	(28,640)
Deduct - accrued interest on bonds payable	(110,240)

Net assets of governmental activities	<u><u>\$ 11,650,094</u></u>
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Concluded

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Special Education Fund	Vocational Education Fund
Revenues			
Local sources			
Property tax levy	\$ 900,918	\$ 8,100,414	\$ 3,113,551
Other taxes	104	17,503	379
Food service	-	-	-
Earnings on investments	53,669	144,254	20,969
Service to local school districts	615,980	-	-
Sale of capital assets	10,025	3,346	-
Other local sources	1,038,997	263,730	875
State sources			
State aid	1,499,781	2,741,409	412,264
Federal sources	665,620	2,123,663	224,457
Total revenues	4,785,094	13,394,319	3,772,495
Expenditures			
Current			
Instruction	841,181	2,512,832	42,433
Supporting services	3,435,050	8,636,508	1,181,583
Community services	1,112	32,421	-
Transfers to locals and other services	534,476	2,102,386	2,968,277
Debt service			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Capital outlay	-	35,870	-
Total expenditures	4,811,819	13,320,017	4,192,293
Revenues (under) over expenditures	(26,725)	74,302	(419,798)
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(3,451)	(5,000)	-
Total other financing sources (uses)	(3,451)	(5,000)	-
Net change in fund balances	(30,176)	69,302	(419,798)

Debt Service Fund	Capital Project Fund	Non-Major School Lunch Fund	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 12,114,883
-	-	-	17,986
-	-	1,556	1,556
-	2,985	-	221,877
-	-	-	615,980
-	-	-	13,371
-	-	-	1,303,602
93,274	132,825	1,083	4,880,636
-	-	6,156	3,019,896
93,274	135,810	8,795	22,189,787
-	-	-	3,396,446
-	-	18,858	13,271,999
-	-	-	33,533
-	-	-	5,605,139
64,292	-	-	64,292
28,982	-	-	28,982
-	-	-	35,870
93,274	-	18,858	22,436,261
-	135,810	(10,063)	(246,474)
-	-	8,451	8,451
-	-	-	(8,451)
-	-	8,451	-
-	135,810	(1,612)	(246,474)

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net change in fund balances - governmental funds \$ (246,474)

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	382,002
Deduct - depreciation expense	(240,633)

The statement of activities report losses arising from the trade-in of existing capital assets to acquire new capital assets. Conversely, governmental funds do not report any gain or loss on a trade-in of capital assets.

(49,460)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct - payments received on long-term Durant settlement/bonds receivables	(197,118)
Deduct - decrease in payments to be received for accrued interest on Durant bonds	(383)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

64,292

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances.

Deduct - increase in accrued compensated absences	(2,396)
Add - decrease in accrued interest payable on bonds	383

Change in net assets of governmental activities

\$ (289,787)

Concluded

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL GENERAL AND MAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	General Fund			
	Budget Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ 2,515,622	\$ 2,651,623	\$ 2,619,693	\$ (31,930)
State sources	1,269,791	1,495,310	1,499,781	4,471
Federal sources	781,691	685,120	665,620	(19,500)
Total revenues	4,567,105	4,832,053	4,785,094	(46,959)
Expenditures				
Current				
Instruction				
Compensatory education	956,768	829,317	841,181	11,864
Added needs	-	-	-	-
Supporting services				
Pupil services	676,336	847,681	844,950	(2,731)
Instructional staff	756,325	819,848	807,177	(12,671)
General administration	476,113	550,231	537,022	(13,209)
Business services	638,986	722,358	715,161	(7,197)
Operation and maintenance	145,405	184,573	172,706	(11,867)
Pupil transportation	60,193	73,356	71,841	(1,515)
Other support	294,312	300,271	286,193	(14,078)
Community service	3,837	821	1,112	291
Acquisition of facilities	-	-	-	-
Payments to other local governmental units	475,353	564,530	534,476	(30,054)
Total expenditures	4,483,629	4,892,987	4,811,819	(81,168)
Revenues over (under) expenditures	83,476	(60,934)	(26,725)	34,209
Other financing uses				
Transfers out	(3,500)	(3,451)	(3,451)	-
Net change in fund balances	79,976	(64,385)	(30,176)	34,209
Fund balances, beginning of year	1,324,130	1,324,130	1,324,130	-
Fund balances, end of year	\$ 1,404,106	\$ 1,259,745	\$ 1,293,954	\$ 34,209

The accompanying notes are an integral part of these financial statements.

Special Education Fund				Vocational Education Fund			
Budget Amounts		Actual	Actual	Budget Amounts		Actual	Actual
Original	Final		Over (Under) Final Budget	Original	Final		Over (Under) Final Budget
\$ 8,507,784	\$ 8,825,957	\$ 8,529,247	\$ (296,710)	\$ 3,200,801	\$ 3,160,965	\$ 3,135,774	\$ (25,191)
2,449,222	2,827,803	2,741,409	(86,394)	390,550	412,264	412,264	-
2,077,909	2,112,896	2,123,663	10,767	224,457	224,457	224,457	-
13,034,915	13,766,655	13,394,319	(372,336)	3,815,808	3,797,686	3,772,495	(25,191)
-	-	-	-	-	-	-	-
2,403,172	2,564,037	2,512,832	(51,205)	15,303	41,538	42,433	896
4,211,346	4,307,140	4,262,433	(44,707)	38,000	36,195	36,195	-
654,498	648,379	626,143	(22,236)	679,655	721,885	707,034	(14,851)
799,587	860,483	861,311	828	111,912	111,826	111,019	(807)
404,246	452,145	429,285	(22,860)	73,603	90,208	88,147	(2,061)
464,847	453,830	418,562	(35,268)	-	-	-	-
1,253,285	1,788,709	1,733,044	(55,665)	-	-	-	-
322,136	319,984	305,730	(14,254)	122,208	245,711	239,188	(6,523)
28,707	32,421	32,421	(0)	-	-	-	-
-	36,000	35,870	(130)	-	-	-	-
2,085,438	2,112,106	2,102,386	(9,720)	2,653,062	2,966,768	2,968,277	1,509
12,627,263	13,575,233	13,320,017	(255,216)	3,693,743	4,214,130	4,192,293	(21,837)
407,652	191,422	74,302	(117,120)	122,065	(416,444)	(419,798)	(3,354)
-	-	(5,000)	(5,000)	-	-	-	-
407,652	191,422	69,302	(122,120)	122,065	(416,444)	(419,798)	(3,354)
5,204,723	5,204,723	5,204,723	-	1,384,335	1,384,335	1,384,335	-
\$ 5,612,375	\$ 5,396,145	\$ 5,274,025	\$ (122,120)	\$ 1,506,400	\$ 967,891	\$ 964,537	\$ (3,354)

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS AGENCY FUND

JUNE 30, 2006

Assets	
Cash	<u>\$ 70,265</u>
Liabilities	
Due to student groups	<u>\$ 70,265</u>

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

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CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Charlevoix-Emmet Intermediate School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District has *fiduciary activities* during the year ended June 30, 2006, but no *business-type activities*.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, state school aid, expenditure driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives cash.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Special Education Fund* accounts for monies received from Federal, State and Local sources which are restricted to instruction and services related to special education.

The *Vocational Education Fund* accounts for monies received from federal, state and local sources that are restricted to instruction and services related to providing vocational education.

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, principal, interest, and related costs.

The *Capital Projects Fund* accounts for the acquisition or construction of capital assets.

Additionally, the government reports the following fund types:

The *School Lunch Fund* accounts for the monies and commodities received from Federal, State, and Local sources, which are restricted to food services.

The *Agency Fund* accounts for assets held for other groups in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the government-wide financial statements.

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the state. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this state.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district

The District's investment policy allows for all of these types of investments.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

3. Inventories

Inventories, which consist of supplies are valued at cost on the first-in/first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

4. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-50
Buildings	50
Vehicles	7-10
Equipment	5-20

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

5. *Long-term obligations*

In the government-wide financial statements, long-term debt obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue Funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with accounting principles generally accepted in the United States of America, and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the superintendent of the District submits to the Board of Education a proposed operating budget for the fiscal year commencing July 1 of that year. The operating budget includes proposed expenditures and the means of financing them for the General, Special Education, Vocational Education, School Lunch, and Debt Service Funds, as well as estimated total costs and proposed methods of financing all capital construction projects.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

2. Public hearings are conducted at the Board of Education meetings of the District to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution, in accordance with Public Act 621 of 1978.
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
5. The District is required under Public Act 621 of 1978 to adopt a budget for the General and individual Special Revenue Funds. For the year ended June 30, 2006, the Board of Education adopted budgets for all funds, except the Agency Fund. Budget appropriations were adopted at a categorical level and lapse at year-end.
6. Budget amounts are reported in the financial statements as originally adopted or as amended by the Board of Education.

B. Excess of expenditures over appropriations

For the year ended June 30, 2006 expenditures exceed appropriations in the General Fund, Special Education and Vocational Educational Special Revenue Funds at the legal level of budgetary control as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Instruction	\$ 829,317	\$ 841,181	\$ 11,864
Community service	821	1,112	291
Vocational Education Fund			
Instruction	41,538	42,433	896
Payments to other local governmental units	2,966,768	2,968,277	1,509

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Cash and cash equivalents and investments are comprised of the following, which includes \$70,265 recorded in fiduciary funds.

Footnote presentation	
Deposits	\$ 1,737,501
Investments	<u>5,909,127</u>
Total	<u>\$ 7,646,628</u>

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Liquid Asset Fund	31 days	\$ 711,070	AAAm
Citizens Bank – Treasury Portfolio B	15 days	\$ 5,198,057	AAA

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,653,228 of the District's bank balance of \$1,843,514 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. Of the above \$5,909,127 of investments, the District has a custodial credit risk exposure of \$5,909,127 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. None of the investments held by the District exceeds 5 percent of the District's investments. All investments held at year-end are reported above.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

B. Capital assets

Capital asset activity in the governmental activities is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 477,145	\$ -	\$ -	\$ 477,145
Capital assets being depreciated				
Land improvements	440,073	-	-	440,073
Buildings	2,149,074	-	-	2,149,074
Building improvements	123,410	58,782	-	182,192
Vehicles	1,548,793	323,220	(226,716)	1,645,297
Equipment	<u>150,794</u>	<u>-</u>	<u>-</u>	<u>150,794</u>
Total capital assets being depreciated	<u>4,412,144</u>	<u>382,002</u>	<u>(226,716)</u>	<u>4,567,430</u>
Less accumulated depreciation for				
Land improvements	(18,786)	(21,612)	-	(40,398)
Buildings	(265,744)	(42,981)	-	(308,725)
Building improvements	(5,832)	(5,559)	-	(11,391)
Vehicles	(920,834)	(155,398)	177,256	(898,976)
Equipment	<u>(25,965)</u>	<u>(15,083)</u>	<u>-</u>	<u>(41,048)</u>
Total accumulated depreciation	<u>(1,237,161)</u>	<u>(240,633)</u>	<u>177,256</u>	<u>(1,300,538)</u>
Total capital assets being depreciated, net	<u>3,174,983</u>	<u>141,369</u>	<u>(49,460)</u>	<u>3,266,892</u>
Governmental activities capital assets, net	<u>\$3,652,128</u>	<u>\$ 141,369</u>	<u>\$ (49,460)</u>	<u>\$3,744,037</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

Instruction	\$ 79,695
Supporting services	<u>160,938</u>

Total depreciation expense – governmental activities **\$ 240,633**

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

C. Interfund receivables, payables and transfers

As of June 30, 2006, \$397 was due from the Special Education Fund to the General Fund. This amount represents a short-term borrowing between the funds for cash flow purposes.

For the year ended June 30, 2006, interfund transfers consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major governmental funds		
General Fund	\$ -	\$ 3,451
Special Education Fund	-	5,000
Non-Major governmental fund		
School lunch fund	<u>8,451</u>	<u>-</u>
Total	<u>\$ 8,451</u>	<u>\$ 8,451</u>

Transfers are to use unrestricted revenues collected in the general and special education funds to finance various programs accounted for in the school lunch fund in accordance with budgetary authorizations.

D. Long-term debt

Long-term debt consists of the 1998 School Improvement Revenue Bonds (Durant Settlement). The bond was issued in the amount of \$1,328,247 with principal amounts due ranging from \$64,292 to \$307,223, and interest payable at 4.8% through 2013. Principal and interest is payable by an annual State of Michigan appropriation to the District. The current amount outstanding is \$64,292.

During the year ended June 30, 2003, the State postponed all Durant debt service requirements until June 30, 2006; therefore there were no changes in long-term debt for the year ended June 30, 2006.

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 307,223	\$ 132,921	\$ 440,144
2008	70,561	22,714	93,275
2009	73,921	19,355	93,276
2010	77,437	15,835	93,272
2011	81,126	12,148	93,274
2012-2013	<u>174,013</u>	<u>12,524</u>	<u>186,537</u>
Totals	<u>\$ 784,281</u>	<u>\$ 215,497</u>	<u>\$ 999,778</u>

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Compensated absences

The District's accrued compensated absences amounted to \$28,641 as of June 30, 2006. This is an increase of \$2,397 from the \$26,244 in accrued compensated absences as of June 30, 2005.

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The District belongs to the SET-SEG Property/Casualty Pool, Inc., a public entity risk pool currently operating as a common risk management and insurance program for various school Districts throughout the state. The District pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal.

The District also belongs to the SEG Self-Insured Worker's Disability Compensation Fund, a public entity risk pool currently operating as a common risk management and worker's compensation insurance program for various school Districts throughout the state. The District pays an annual premium for its worker's compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal.

The District became self-insured in health, dental, and vision insurance during the year. Blue Cross and Blue Shield is the third party administrator. They have a stop loss coverage with Blue Cross Blue Shield of Michigan for any claims exceeding \$50,000.

The health insurance claims liability of \$124,437 reported in the General, Special and Vocational Educational Special Revenue Funds at June 30, 2006, is based on the requirements of Governmental Accounting Standards Board Statement #10, which requires that a liability for claims be reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The claims liability is reported based on information from the insurance agent. No annuity contracts have been purchased for claims liability.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

The change in this liability for the year ended June 30, 2006 is as follows:

Claims liability at beginning of year	\$ 22,187
Claims and damages incurred	1,267,250
Claims payments	<u>1,165,000</u>
Claims liability at end of year	<u>\$124,437</u>

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 or December 1 of the following year by the various governmental units within the District. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties within the District.

C. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

The current rate is 16.34% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan state statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2006, 2005 and 2004 were \$1,408,910, \$1,212,373, and \$1,063,461, respectively, equal to the required contributions for each year.

Other post-employment benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminated employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Contingencies

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

* * * * *

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

GENERAL FUND SCHEDULE OF EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Salaries</u>	<u>Benefits</u>	<u>Purchased Services</u>
Instruction			
Added needs			
Compensatory education	<u>\$ 467,477</u>	<u>\$ 242,986</u>	<u>\$ 110,398</u>
Supporting services			
Pupil services			
Guidance services	329,325	164,093	42,432
Other pupil support services	<u>196,594</u>	<u>45,646</u>	<u>16,656</u>
Total pupil services	<u>525,919</u>	<u>209,739</u>	<u>59,088</u>
Instructional staff			
Direction of instructional staff	259,731	126,758	18,211
Other instructional support services	<u>198,506</u>	<u>79,003</u>	<u>80,295</u>
Total instructional staff	<u>458,237</u>	<u>205,761</u>	<u>98,506</u>
General administration			
Board of education	2,370	41,542	58,250
Other administrative support services	11	26	5,833
Executive administration	<u>243,133</u>	<u>141,492</u>	<u>14,776</u>
Total general administration	<u>245,514</u>	<u>183,060</u>	<u>78,859</u>

Supplies & Materials	Capital Outlay	Other Expenditures	Total
<u>\$ 16,829</u>	<u>\$ -</u>	<u>\$ 3,491</u>	<u>\$ 841,181</u>
8,444	-	125	544,419
<u>38,439</u>	<u>2,996</u>	<u>200</u>	<u>300,531</u>
<u>46,883</u>	<u>2,996</u>	<u>325</u>	<u>844,950</u>
7,773	1,234	425	414,132
<u>34,485</u>	<u>-</u>	<u>756</u>	<u>393,045</u>
<u>42,258</u>	<u>1,234</u>	<u>1,181</u>	<u>807,177</u>
-	-	16,420	118,582
6,934	-	-	12,804
<u>931</u>	<u>598</u>	<u>4,706</u>	<u>405,636</u>
<u>7,865</u>	<u>598</u>	<u>21,126</u>	<u>537,022</u>

Continued ...

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

GENERAL FUND SCHEDULE OF EXPENDITURES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2006

	Salaries	Benefits	Purchased Services
Business services			
Fiscal services	\$ 461,169	\$ 216,046	\$ 22,043
Operation and maintenance			
Operation and maintenance of plant	12,541	2,991	104,480
Transportation			
Pupil transportation	11,945	2,626	34,887
Other support			
Communication and marketing	19,423	11,567	8,704
Information management	26,211	10,968	770
Pupil accounting	46,470	28,430	19,307
Other support services	36,155	9,600	43,739
Total other support	128,259	60,565	72,520
Total supporting services	1,843,584	880,788	470,383
Community services	-	-	401
Payments to other governmental units			
Local school districts	-	-	-
Community health agencies	-	-	-
Total payments to other governmental units	-	-	-
Total expenditures	\$ 2,311,061	\$ 1,123,774	\$ 581,182

Supplies & Materials	Capital Outlay	Other Expenditures	Total
\$ 3,507	\$ -	\$ 12,396	\$ 715,161
26,545	26,149	-	172,706
22,383	-	-	71,841
472	-	551	40,717
938	-	1,082	39,969
1,771	-	17,497	113,475
2,538	-	-	92,032
5,719	-	19,130	286,193
155,160	30,977	54,158	3,435,050
711	-	-	1,112
-	-	499,064	499,064
-	-	35,412	35,412
-	-	534,476	534,476
\$ 172,700	\$ 30,977	\$ 592,125	\$ 4,811,819

Concluded

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT**SPECIAL EDUCATION FUND
SCHEDULE OF EXPENDITURES****FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Salaries</u>	<u>Benefits</u>	<u>Purchased Services</u>
Instruction			
Added needs			
Special education	\$ 1,628,374	\$ 811,983	\$ 32,384
Supporting services			
Pupil services			
Health services	327,431	139,613	71,940
Psychological services	602,986	244,327	16,632
Speech, pathology and audiology	816,011	366,986	25,836
Social work services	451,897	203,572	15,196
Visual aid services	64,761	31,692	5,799
Teacher consultants	334,939	152,932	14,558
Other pupil support services	209,388	108,825	26,866
Total pupil	2,807,413	1,247,947	176,827
Instructional staff			
Direction of instructional staff	203,861	133,389	57,904
Improvement of instruction	93,348	37,751	36,132
Total instructional staff	297,209	171,140	94,036
General administration			
Board of education	-	101,325	44,905
Executive administration	424,702	245,358	15,542
Total general administration	424,702	346,683	60,447
Business services			
Fiscal services	239,670	111,517	38,666
Operation and maintenance			
Operation and maintenance of plant	65,284	42,037	158,338

Supplies & Materials	Capital Outlay	Other Expenditures	Total
<u>\$ 31,718</u>	<u>\$ 8,084</u>	<u>\$ 289</u>	<u>\$ 2,512,832</u>
7,147	-	130	546,261
2,024	2,369	290	868,628
5,968	-	1,744	1,216,545
1,329	1,234	660	673,888
471	-	-	102,723
1,918	2,221	399	506,967
946	1,234	162	347,421
<u>19,803</u>	<u>7,058</u>	<u>3,385</u>	<u>4,262,433</u>
38,037	-	965	434,156
5,024	-	19,732	191,987
<u>43,061</u>	<u>-</u>	<u>20,697</u>	<u>626,143</u>
1,453	-	-	147,683
22,270	1,577	4,179	713,628
<u>23,723</u>	<u>1,577</u>	<u>4,179</u>	<u>861,311</u>
6,196	-	33,236	429,285
<u>104,564</u>	<u>48,270</u>	<u>69</u>	<u>418,562</u>

Continued...

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

SPECIAL EDUCATION FUND SCHEDULE OF EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Salaries</u>	<u>Benefits</u>	<u>Purchased Services</u>
Transportation			
Pupil transportation	<u>707,390</u>	<u>345,367</u>	<u>166,529</u>
Other support			
Communication and marketing	26,706	15,930	16,680
Information management	47,249	23,297	1,897
Other support services	<u>80,695</u>	<u>72,941</u>	<u>9,740</u>
Total other support	<u>154,650</u>	<u>112,168</u>	<u>28,317</u>
Total supporting services	<u>4,696,318</u>	<u>2,376,859</u>	<u>723,160</u>
Community services	<u>-</u>	<u>-</u>	<u>32,104</u>
Acquisition of facilities	<u>-</u>	<u>-</u>	<u>-</u>
Payments to other governmental units			
Local school districts	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 6,324,692</u>	<u>\$ 3,188,842</u>	<u>\$ 787,648</u>

<u>Supplies & Materials</u>	<u>Capital Outlay</u>	<u>Other Expenditures</u>	<u>Total</u>
<u>263,967</u>	<u>248,656</u>	<u>1,135</u>	<u>1,733,044</u>
1,113	1,723	1,286	63,438
2,876	-	2,524	77,843
<u>1,020</u>	<u>-</u>	<u>53</u>	<u>164,449</u>
<u>5,009</u>	<u>1,723</u>	<u>3,863</u>	<u>305,730</u>
<u>466,323</u>	<u>307,284</u>	<u>66,564</u>	<u>8,636,508</u>
<u>317</u>	<u>-</u>	<u>-</u>	<u>32,421</u>
<u>-</u>	<u>35,870</u>	<u>-</u>	<u>35,870</u>
<u>-</u>	<u>-</u>	<u>2,102,386</u>	<u>2,102,386</u>
<u>\$ 498,358</u>	<u>\$ 351,238</u>	<u>\$ 2,169,239</u>	<u>\$ 13,320,017</u>

Concluded

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT**VOCATIONAL EDUCATION FUND
SCHEDULE OF EXPENDITURES****FOR THE YEAR ENDED JUNE 30, 2006**

	Salaries	Benefits	Purchased Services
Instruction			
Added needs			
Vocational education	\$ 30,001	\$ 2,358	\$ 10,074
Supporting services			
Pupil services			
Counselor	26,202	9,993	-
Instructional staff			
Direction of instructional staff	94,070	54,803	7,974
Improvement of instruction	224,774	103,972	82,278
Total instructional staff	318,844	158,775	90,252
General administration			
Executive administration	66,365	43,061	95
Business services			
Fiscal services	48,775	22,854	-
Other support			
Communication and marketing	34,799	20,679	-
Information management	-	-	124,368
Total other support	34,799	20,679	124,368
Total supporting services	494,985	255,362	214,715
Payments to other governmental units			
Local school districts	-	-	-
Total expenditures	\$ 524,986	\$ 257,720	\$ 224,789

Supplies & Materials	Capital Outlay	Other Expenditures	Total
\$ -	\$ -	\$ -	\$ 42,433
-	-	-	36,195
1,510	-	1,637	159,994
96,429	30,613	8,974	547,040
97,939	30,613	10,611	707,034
1,498	-	-	111,019
-	-	16,518	88,147
-	-	-	55,478
58,079	1,263	-	183,710
58,079	1,263	-	239,188
157,516	31,876	27,129	1,181,583
-	-	2,968,277	2,968,277
\$ 157,516	\$ 31,876	\$ 2,995,406	\$ 4,192,293

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Assets				
Cash	\$ 52,064	\$ 98,634	\$ 80,433	\$ 70,265
Accounts receivable	45	-	45	-
	<u>45</u>	<u>-</u>	<u>45</u>	<u>-</u>
Total assets	<u>\$ 52,109</u>	<u>\$ 98,634</u>	<u>\$ 80,478</u>	<u>\$ 70,265</u>
Liabilities				
Due to student groups	<u>\$ 52,109</u>	<u>\$ 98,634</u>	<u>\$ 80,478</u>	<u>\$ 70,265</u>

**CHARLEVOIX-EMMET INTERMEDIATE
SCHOOL DISTRICT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE/GRANT NUMBER		FEDERAL CFDA NUMBER	APPROVED AWARD/GRANT AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(Memo Only) Prior Year Expenditures	CURRENT YEAR EXPENDITURES	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	05/06 REVENUE RECORDED
U.S. DEPARTMENT OF EDUCATION									
Passed through Michigan Department of Education:									
Flow-Through, 060450/0506, 2005-2006	1	84.027	\$ 1,898,423	\$ -	\$ -	\$ 1,898,423	\$ 1,898,423	\$ -	\$ 1,898,423
Transition Services, 060490/TS, 2005-2006	1	84.027	70,000	-	-	70,000	70,000	-	70,000
State Initiated EOSD, 060480/EOSD, 2005-2006	1	84.027	50,000	-	-	50,000	50,000	-	50,000
Total		84.027	2,018,423	-	-	2,018,423	2,018,423	-	2,018,423
IDEA P.L. 94-142									
Preschool Incentive, 060460/0506, 2005-2006	1	84.173	45,428	-	-	45,428	45,428	-	45,428
Total		84.173	45,428	-	-	45,428	45,428	-	45,428
Even Start-New Horizon, 060390/C0627CES, 2005-2006		84.213	225,000	-	-	221,341	188,928	32,413	221,341
Even Start- Northwest, 060390/D0626CES, 2005-2006		84.213C	225,000	-	-	225,000	225,000	-	225,000
Total		83.213	450,000	-	-	446,341	413,928	32,413	446,341
Infant & Toddler Early Intervention, 051340/190, 2004-2005		84.181	120,170	11,979	49,784	70,386	82,365	-	70,386
Infant & Toddler Early Intervention, 061340/190, 2005-2006		84.181	106,668	-	-	47,348	36,053	11,295	47,348
Total		84.181	226,838	11,979	49,784	117,734	118,418	11,295	117,734
Drug Free Schools & Communities, 062860/0506, 2005-06									
		84.186A	59,849	-	-	34,548	22,844	11,704	34,548
Total		84.186	59,849	-	-	34,548	22,844	11,704	34,548
Total passed through Michigan Department of Education			2,800,538	11,979	49,784	2,662,474	2,619,041	55,412	2,662,474
Passed Through TBA ISD									
Vocational Education-Perkins III, Title II, Tech Prep 2005-2006		84.243A	33,966	-	-	33,966	33,966	-	33,966
Passed through Wexford-Missaukee ISD									
Vocational Education, Secondary CTE Perkins Grant, 2005-2006		84.048	120,491	-	-	120,491	120,491	-	120,491
Total passed through other state districts/agencies			154,457	-	-	154,457	154,457	-	154,457
TOTAL U.S. DEPARTMENT OF EDUCATION			2,954,995	11,979	49,784	2,816,931	2,773,498	55,412	2,816,931

**CHARLEVOIX-EMMET INTERMEDIATE
SCHOOL DISTRICT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE/GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED AWARD/GRANT AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(Memo Only) Prior Year Expenditures	CURRENT YEAR EXPENDITURES	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	05/06 REVENUE RECORDED
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Passed through Michigan Family Independence Agency								
Chpr-01-15001-2004-2005	93.558	\$ 23,964	\$ 2,029	\$ 15,504	\$ 8,460	\$ 10,488	\$ -	\$ 8,460
Chpr-01-15001-2005-2006	93.558	25,000	-	-	14,903	12,330	2,573	14,903
SFSC 06-15002 2005-2006	93.558	7,621	-	-	4,324	-	4,324	4,324
Total passed through Michigan Family Independence Agency		56,585	2,029	15,504	27,687	22,818	6,897	27,687
Passed Through Northwest Michigan Community Health								
Teen Services 2005-2004	93.558	26,846	4,936	19,926	6,920	11,857	-	6,920
Teen Services 2005-2006	93.558	26,605	-	-	19,895	17,205	2,690	19,895
Total passed through Northwest Michigan Community Health		53,451	4,936	19,926	26,816	29,062	2,690	26,816
Passed through Michigan Department of Public Health								
Medicaid Administrative Outreach 2005-2006	93.778	12,078	-	80,463	12,078	12,078	-	12,078
		12,078	-	80,463	12,078	12,078	-	12,078
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		122,114	6,965	115,893	66,580	63,959	9,587	66,580
CORPORATION FOR NATIONAL SERVICE								
Passed Through Michigan Community Service Commission								
Michigan Americorps, 03AFHMI0020010, 2004-2005	94.006	147,023	23,399	125,308	21,716	45,115	-	21,716
Michigan Americorps, 03AFHMI0020010, 2005-2006	94.006	108,513	-	-	108,513	94,112	14,401	108,513
TOTAL CORPORATION FOR NATIONAL SERVICE		255,537	23,399	125,308	130,229	139,227	14,401	130,229
U.S. DEPARTMENT OF AGRICULTURE								
Passed through Michigan Department of Education								
National School Lunch Sec. 4								
Lunch 051950	10.555	876	50	796	130	180	-	130
Lunch 061950	10.555	593	-	-	593	565	29	593
National School Lunch Sec. 11								
Lunch 051950	10.555	6,572	244	5,832	684	928	-	684
Lunch 061950	10.555	3,995	-	-	3,995	3,494	502	3,995

**CHARLEVOIX-EMMET INTERMEDIATE
SCHOOL DISTRICT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE/GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED AWARD/GRANT AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(Memo Only) Prior Year Expenditures	CURRENT YEAR EXPENDITURES	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	05/06 REVENUE RECORDED
National School Breakfast								
Breakfast 051970	10.553	\$ 1,180	\$ 38	\$ 1,101	\$ 79	\$ 117	\$ -	\$ 79
Breakfast 061970	10.553	673	-	-	673	592	81	673
Entitlement Commodities	10.550	-	-	869	-	-	-	-
Entitlement Bonus	10.550	-	-	19	-	-	-	-
		-	-	888	-	-	-	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE	4.000	13,890	332	8,617	6,155	5,876	611	6,155
TOTAL FEDERAL AWARDS		\$ 3,346,536	\$ 42,675	\$ 299,601	\$ 3,019,896	\$ 2,982,559	\$ 80,011	\$ 3,019,896

Notes to schedule of Expenditures of Federal Awards

1 These programs are considered a cluster for determining program types.

2 The Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the basic financial statements.

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS

For the fiscal year ended June 30, 2006

Program Title/Grant Number Subrecipient Name	Federal CFDA Number	Subrecipient Award/Contract Amount	Due to (from) Subrecipient July 1, 2005
DRUG FREE FORMULA	84.186A		
Passed through to			
Beaver Island Community Schools		\$ 2,873	\$ -
Central Lake Schools		75	-
Harbor Springs Public Schools		2,369	-
Littlefield Public Schools		2,651	-
Total Drug Free Schools		7,968	-
NORTHWEST EVEN START	84.213C		
Passed through to			
Charlevoix Public Schools		1,615	-
IDEA FLOW THROUGH	84.027		
Passed through to			
East Jordan Public Schools		445	-
TRANSITION SERVICES	84.027		
Passed through to			
Boyne City Public Schools		2,439	-
Boyne Falls School		1,340	-
Central Lake Schools		1,120	-
Charlevoix Public Schools		225	-
Concord Academy - Boyne		330	-
East Jordan Public Schools		1,580	-
Ellsworth Community Schools		540	-
Harbor Springs Public Schools		1,655	-
Littlefield Schools		1,810	-
Northwest Academy		670	-
Pellston Public Schools		1,210	-
Public Schools of Petoskey		2,571	-
Total Michigan Transition Initiative		15,490	-
MEDICAID ADMINISTRATIVE OUTREACH	93.778		
Passed through to			
Boyne City Public Schools		940	-
Boyne Falls Schools		179	-
Central Lake Schools		256	-
Charlevoix Public Schools		1,035	-
Concord Academy - Boyne		64	-
East Jordan Public Schools		774	-
Ellsworth Community Schools		182	-
Harbor Springs Public Schools		222	-
Littlefield Schools		292	-
Pellston Public Schools		141	-
Public Schools of Petoskey		2,321	-
Total Medicaid Administrative Outreach		6,407	-

Subrecipient Current Year Expenditures	Current Year Cash Transferred To Subrecipient	Due to (from) Subrecipient June 30, 2006
\$ 2,873	\$ 2,873	\$ -
75	75	-
2,369	2,369	-
2,651	2,651	-
7,968	7,968	-
1,615	1,615	-
445	445	-
2,439	2,439	-
1,340	1,340	-
1,120	1,120	-
225	225	-
330	330	-
1,580	1,580	-
540	540	-
1,655	1,655	-
1,810	1,810	-
670	670	-
1,210	1,210	-
2,571	2,571	-
15,490	15,490	-
940	940	-
179	179	-
256	256	-
1,035	1,035	-
64	64	-
774	774	-
182	182	-
222	222	-
292	292	-
141	141	-
2,321	2,321	-
6,407	6,407	-

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS**

For the fiscal year ended June 30, 2006

Program Title/Grant Number Subrecipient Name	Federal CFDA Number	Subrecipient Award/Contract Amount	Due to (from) Subrecipient July 1, 2005
VOCATIONAL EDUCATION SECONDARY CTE PERKINS	84.048		
Passed through to East Jordan Public Schools		<u>67</u>	<u>-</u>
VOCATIONAL ED, PERKINS III, Tech Prep	84.243A		
Passed through to Boyne City Pubic Schools		45	-
East Jordan Public Schools		1,413	-
Pellston Pubic Schools		<u>50</u>	<u>-</u>
Total Vocational Ed, Perkins III, Title II		<u>1,508</u>	<u>-</u>
Total Federal Funds Passed Through to Subrecipients		<u>\$ 33,500</u>	<u>\$ -</u>

<u>Subrecipient Current Year Expenditures</u>	<u>Current Year Cash Transferred To Subrecipient</u>	<u>Due to (from) Subrecipient June 30, 2006</u>
<u>67</u>	<u>67</u>	<u>-</u>
45	45	-
1,413	1,413	-
<u>50</u>	<u>50</u>	<u>-</u>
<u>1,508</u>	<u>1,508</u>	<u>-</u>
 <u>\$ 33,500</u>	 <u>\$ 33,500</u>	 <u>\$ -</u>

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

RECONCILIATION TO GRANT SECTION AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2006

Reconciliation to Grant Section Auditors' Report

Current payments per the Grant Sections Auditors' Report	\$ 2,625,844
Less State funded school breakfast	(927)
Plus revenues not confirmed on the Grant Sections Auditors' Report	
Chpr-01-15001-2004-05	10,488
Chpr-01-15001-2005-06	12,330
Medicaid Administrative Outreach	12,078
Michigan Americorps 2004-05	45,115
Michigan Americorps 2005-06	94,112
Teen Services 2004-05	11,857
Teen Services 2005-06	17,205
Vocational education - Perkins III, Title II, Tech Prep.	33,966
Vocational Education, Secondary CTE Perkins Grant	120,491
	<hr/>
Total current year receipts per Schedule of Expenditures of Federal Awards	<u><u>\$ 2,982,559</u></u>

Reconciliation to financial statements

Current year expenditures per the Schedule of Expenditures of Federal Awards	<u><u>\$ 3,019,896</u></u>
Total Federal revenue/sources per financial statements	<u><u>\$ 3,019,896</u></u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

July 27, 2006

Board of Education
Charlevoix-Emmet Intermediate School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Charlevoix-Emmet Intermediate School District* (the "District") as of and for the year ended June 30, 2006, and have issued our report thereon dated July 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated July 27, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, members of the Board of Education, federal awarding agencies, pass-through entities and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A – 133**

July 27, 2006

Board of Education
Charlevoix-Emmet Intermediate School District

Compliance

We have audited the compliance of *Charlevoix-Emmet Intermediate School District* (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in

order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

CHARLEVOIX- EMMET INTERMEDIATE SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

SECTION 1 - SUMMARY OF AUDITORS RESULTS:

Financial Statements

Type of Auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
Identification of major programs:	

<u>CFDA #</u>	<u>Name of Program</u>
84.027 & 84.173	Special Education Cluster
84.213	Evenstart

Dollar threshold to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low risk auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

No financial statement findings are reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings or questioned costs are reported.